

**IN THE CLAIMS:**

1. – 14. (Cancelled)

15. (Currently Amended) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

a bit body for interconnection to a drill string, and a plurality of cutting elements extending from the bit body;

a first set of the cutting elements adapted for milling casing material; and

a second set of the cutting elements adapted for drilling subterranean formation material, wherein the first and second sets are arranged in a common radial row and a common plane along a surface of the body.

16. (Previously Presented) The rotary drill bit of claim 15, further including a matrix portion comprising diamond material.

17. (Cancelled)

18. (Previously Presented) The rotary drill bit of claim 15, wherein the bit body includes a lower pilot section and an upper reaming section.

19. (Previously Presented) The rotary drill bit of claim 15, wherein the drill bit is a drag type drill bit.

20. (Cancelled)

21. (Cancelled)

22. (Previously Presented) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

a bit body having a plurality of cutting elements extending from the bit body;

a first set of the cutting elements adapted for milling casing material; and  
a second set of the cutting elements adapted for drilling subterranean formation material, wherein the cutting elements of the first and second sets are substantially interspersed on a surface of the bit body and the first set of cutting elements has a tip exposure substantially equal to a tip exposure of the second set of cutting elements.

23. (Previously Presented) The rotary drill bit of claim 22, wherein the first set is radially displaced outwardly on the bit body relative to the second set.

24. (Previously Presented) The rotary drill bit of claim 22, wherein the bit body has an axis and the cutting elements of the first and second sets relatively are positioned on substantially the same radius relative to the axis.

25. - 28. (Cancelled)

29. (Previously Presented) A method of drilling a lateral wellbore, comprising:  
positioning a rotary drill bit disposed on a drill string proximate a desired location in a cased wellbore, the rotary drill bit comprising:

a bit body;

a first set of the cutting elements; and

a second set of the cutting elements, wherein the cutting elements of the first and second sets are substantially interspersed on a surface of the bit body and the first set of cutting elements has a tip exposure substantially equal to a tip exposure of the second set of cutting elements;

rotating the drill bit whereby the first set of cutting elements remove casing material at the desired location to form a lateral opening in the cased wellbore; and

directing the drill bit through the lateral opening whereby the second set of cutting elements form the lateral wellbore.

30. (Previously Presented) The method of claim 29, wherein the first set is radially displaced outwardly on the bit body relative to the second set.

31. (Previously Presented) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

- a bit body having a shank portion and a matrix portion for interconnection to a drill string, and a plurality of cutting elements extending from the matrix portion;

- a first set of the cutting elements adapted for milling casing material; and

- a second set of the cutting elements adapted for drilling subterranean formation material, wherein the bit is bi-centered.

32. (Previously Presented) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

- a bit body for interconnection to a drill string, and a plurality of cutting elements extending from the bit body;

- a first set of the cutting elements adapted for milling casing material; and

- a second set of the cutting elements adapted for drilling subterranean formation material, wherein the bit is bi-centered.

33. (Cancelled)

34. (Previously Presented) The rotary drill bit of claim 15, wherein the first and second sets of cutting elements have substantially equal tip exposure.

Please add the following new claims:

35. (New) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

- a bit body having a plurality of cutting elements extending from the bit body;

- a first set of the cutting elements adapted for milling casing material; and

- a second set of the cutting elements adapted for drilling subterranean formation material, wherein the cutting elements of the first and second sets are substantially interspersed on a surface of the bit body and the first set of cutting elements has a tip

exposure substantially equal to a tip exposure of the second set of cutting elements and the cutting elements of the first set have a cross-sectional area different than the cutting elements of the second set.

36. (New) A rotary drill bit for milling casing material and drilling subterranean formation material, comprising:

- a bit body having a plurality of cutting elements extending from the bit body;

- a first set of the cutting elements adapted for milling casing material; and

- a second set of the cutting elements adapted for drilling subterranean formation material, wherein the cutting elements of the first and second sets are substantially interspersed on a surface of the bit body and the first set of cutting elements has a tip exposure substantially equal to a tip exposure of the second set of cutting elements and the cutting elements of the first set have a face configuration different than the cutting elements of the second set.